

THE COUNTY OF  
**GLADWIN, MICHIGAN**

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SINGLE AUDIT REPORTS  
For The Year Ended December 31, 2005

**GLADWIN COUNTY, MICHIGAN  
SINGLE AUDIT REPORTS  
DECEMBER 31, 2005**

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Gladwin County Board of Commissioners  
Gladwin County Courthouse  
401 West Cedar Avenue  
Gladwin, MI 48624

We have audited the general purpose financial statements of Gladwin County, Michigan, as of and for the year ended December 31, 2005, and have issued our report thereon dated April 12, 2006. We did not audit the financial statements of the Gladwin County Road Commission, which represent 91% of fund equity and 74% of the revenues of the County's component units. Those financial statements were audited by other auditors whose report thereon has been provided to us, and our opinion, insofar as it relates to the amounts included for the Gladwin County Road Commission Funds, is based solely on the reports of other auditors. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gladwin County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Accounting Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gladwin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted four matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. These items are listed as 2005-1 through 2005-4 in the accompanying Schedule of Findings and Questioned Costs.

In planning and performing our audit of the financial statements of Gladwin County for the year ended December 31, 2005, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

This report is intended solely for the information and use of management, others within the organization, the Gladwin County Board of Commissioners and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Burnside & Zoug, P.C.*

Midland, Michigan  
August 16, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Gladwin County Board of Commissioners  
Gladwin County Courthouse  
401 West Cedar Avenue  
Gladwin, MI 48624

Compliance

We have audited the compliance of Gladwin County with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. Gladwin County's major federal programs are identified in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Gladwin County's management. Our responsibility is to express an opinion on Gladwin County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gladwin County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Gladwin County's compliance with those requirements.

In our opinion, Gladwin County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Gladwin County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Gladwin County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted one matter identified as *Finding 2005-4* in the Schedule of Findings and Questioned Costs involving the internal control over compliance and its operations that we consider to be a reportable condition.

This report is intended solely for the information and use of management, others within the organization, the Gladwin County Board of Commissioners and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Burnside & Long, P.C.*

Midland, Michigan  
August 16, 2007

**GLADWIN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:

*Unqualified on basic  
Financial Statements*

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_yes      X  no

Reportable condition(s) identified not  
considered to be material weaknesses?

  X  yes    \_\_\_\_\_no (#’s 2005 1-3)

Noncompliance material to financial statements  
noted?

\_\_\_\_\_yes      X  no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_\_yes      X  no

Reportable condition(s) identified not  
considered to be material weaknesses?

  X  yes    \_\_\_\_\_no (# 2005-4)

Type of auditor’s report issued on compliance  
for major programs:

*Unqualified*

Any audit findings disclosed that are required to  
be reported in accordance with Circular A-133,  
Section 510(a)?

\_\_\_\_\_yes      X  no

Identification of major problems:

**CFDA Number**

20.509

**Name of Federal Program**

US Department of Transportation –  
Capital, Rural Transit and Operating  
Assistance

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

  X  yes    \_\_\_\_\_no

**GLADWIN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Bank Reconciliations (2005-1)**

Audit adjustments were required to reconcile cash balances to the general ledger. As stated in the Michigan Department of Treasury's *Uniform Accounting Procedures Manual*, "All bank accounts must be reconciled to the general ledger monthly."

Due to the volume of pooled cash accounts, we recommend the Deputy Treasurer use the spread sheet we prepared and used during the time of our audit field work. This should help facilitate balancing each bank account to its corresponding general ledger cash account.

**Vendor Invoices and Accounts Payable (2005-2)**

We found that the Drain Commission was still in possession of unrecorded invoices for cost incurred during 2005. These invoices totaling \$140,095 required an audit adjustment to set-up an accounts payable and to properly record expenditures. This is the result of vendor invoices not being received directly by the County Clerk's Office and input timely into the accounting information system.

According to proper financial recording and generally accepted accounting procedures all expenditures should be recorded at the time they are incurred. We recommend the County implement a more streamlined incoming mail process. All mail should go through a central contact, and invoices go to the Treasurer or Clerk in a timely fashion.

**District Court Bank Accounts (2005-3)**

Friend of the Court and District Court need to reconcile bank accounts and give to Treasurer on a monthly basis. We recommend researching the law on requirements for monthly reconciling and reporting to the Treasurer and implementing this requirement.



**GLADWIN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Federal Awards (2005-4)**

Schedule of Federal Expenditures was not maintained to track revenue and expenditures for all federal awards during this fiscal year. Federal revenue was also not properly classified in the general ledger account structure.

We recommend that in accordance with Office of Management and Budget Circular No. A-133 that a schedule of expenditures of Federal awards be maintained for the period covered by the financial statements. At a minimum the schedule shall include:

1. List of individual Federal programs by Federal agency
2. The amount of Federal awards expended.
3. The CFDA number or other identifying number when the CFDA information is not available.
4. Award number and year.
5. Name of pass-through entity.

Also, we recommend that a copy of the grant awards be sent to both the Clerk and Treasurer's office. This will enable the Treasurer to properly record and track receipt of grant money.

**GLADWIN COUNTY**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

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**INTERNAL CONTROL FINDINGS**

Bank Reconciliations (Repeated in current year)

Cash account balances are not being reconciled to the General Ledger on a monthly basis.

Vendor Invoices and Accounts Payable (Repeated in current year)

Vendor invoices are not received directly by the County Clerk's Office and input directly into the accounting information system.

District Court Bank Accounts (Repeated in current year)

Friend of the Court and the District Court are not reconciling bank accounts and giving them to the Treasurer on a monthly basis.

Federal Awards (Repeated in current year)

Schedule of Federal Expenditures was not maintained to track revenue and expenditures for all federal awards during this fiscal year. Federal revenue was also not properly classified in the general ledger account structure.

Note

The reason these reports are issued late is because the auditors, during the audit of the County's December 31, 2006 financial data, discovered additional Federal Grant expenditures expended during the fiscal year ended December 31, 2005. These expenditures put the County above the required \$500,000 Single Audit threshold. Because of this, the auditors have included the most recent Comment and Recommendation letter that was issued for the December 31, 2006 fiscal year. This letter is included as pages 10-13 of this report.

June 8, 2007

Members of the Board of  
County Commissioners  
Gladwin County  
401 West Cedar Avenue  
Gladwin, Michigan 48624

Dear Commission Members:

In planning and performing our audit of the financial statements of Gladwin County, for the year ended December 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

#### **Prior Comments and Recommendations**

As the conclusion of our December 31, 2005 audit, dated April 12, 2006, we made the following comments and recommendations.

1. Use an excel spread sheet to reconcile the pooled cash bank balances back to the multiple general ledger cash accounts each month.
2. Ensure all expenditures are recorded at the time their incurred by implementing a more streamlined incoming mail process where all mail goes through a central contact.

We are pleased to note that as of our audit for the period ended December 31, 2006, all the above recommendations have been taken care of.

## **REPORTABLE CONDITION**

### **Significant Deficiencies in Internal Control**

#### **Financial Accounting and Reporting**

Management relies on the County's auditors to ensure the financial statements conform to generally accepted accounting principles ("GAAP"). Therefore, as a part of our engagement to audit the financial statements, we draft the financial statements and the related footnotes for approval by management and the finance committee of the board of commissioners. This is a conscious and practical approach to preparing the financial statements since the County has determined that the costs to establish internal controls over financial reporting and to develop the skills and knowledge of its personnel to apply generally accepted accounting principles in preparing the financial statements is greater than the risk of misstatements occurring in the financial statements. However, as a result of recently issued professional auditing standards, this situation meets the definition of a significant deficiency and a material weakness in internal control.

The interim financial statements and management reports are generally prepared on a comprehensive basis of accounting other than generally accepted accounting principles, i.e. the modified accrual basis. It appears that the interim financial reports received by management are appropriate in form and content thereby allowing management to make appropriate decisions regarding financial matters. Therefore, the control weakness over preparation of financial statements in conformity with GAAP is not a significant requirement of management.

We considered this internal control deficiency in planning the scope of our audit procedures and believe that we have appropriately addressed the risk of any misstatements in the audited financial statements. Therefore, due to the relative cost to eliminate the internal control deficiency over financial reporting in conformity with GAAP related to the risks involved and considering the audit procedures performed to address the risk of misstatements in the audited financial statements, we do not recommend any actions to address this weakness at this time. However, we do recommend that management routinely review the internal controls in place to prepare the interim financial reports to ensure accurate information is provided in those reports.

## **OTHER MATTERS**

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

#### **District Court Bank Accounts** (Repeat Comment)

Friend of the Court and District Court need to reconcile agency bank accounts and give reconciliations to the Treasurer on a monthly basis. We recommend reviewing the law on requirements for monthly bank account reconciling, completing this process and reporting monthly the balances to the Treasurer.

### Chart of Accounts

Inconsistencies were found within the Counties account structure making it difficult to identify the purpose certain accounts were being used for. Federal and State revenue accounts in particular are not properly identified in accordance with State of Michigan's recommended chart of accounts.

Per the State of Michigan Chart of Accounts for local governments, mandatory account numbers for Federal Grants is "501" and State Grants is "539". By updating your account number structure to comply with mandatory state requirements board members and outside users of financial statements will more readily identify the source of revenue received.

### Federal Awards

Schedule of Federal Expenditures was not maintained to track revenue and expenditures for all federal awards during this fiscal year. Federal revenue was also not properly classified in the general ledger account structure.

We recommend that in accordance with Office of Management and Budget Circular No. A-133 that a schedule of expenditures of Federal awards be maintained for the period covered by the financial statements. At a minimum the schedule shall include:

1. List of individual Federal programs by Federal agency
2. The amount of Federal awards expended.
3. The CFDA number or other identifying number when the CFDA information is not available.
4. Award number and year.
5. Name of pass-through entity.

Also, we recommend that a copy of the grant awards be sent to both the Clerk and Treasurer's office. This will enable the Treasurer to properly record and track receipt of grant money.

### Outstanding Checks

During our review of the bank reconciliations, we identified outstanding checks in the general checking account dating back to April 2005. We also found the inmate account to have a large number of un-cashed checks for very minor dollar amounts.

We recommend a procedure be developed for the general and inmate checking accounts to review the outstanding checks bi-annually and old and outstanding checks be voided and re-issued or escheated back to the state.

### General Ledger Maintenance

We noted during our review of the general ledger capital outlay and repair and maintenance accounts, that expenditures were misclassified between these two classes of accounts.

Since the Counties capitalization policy is \$500, we recommend that management continually monitors the recording of fixed assets and only record purchases of \$500 and over to the capital outlay accounts and record all purchases less than the capitalization policy to the repair and maintenance accounts.

#### Petty Cash Accounts

During our review of the Counties petty cash accounts, we discovered that the friend of the court did not maintain a petty cash fund for \$1,000 that was evidenced within the general ledger. Upon further review with the friend of the court it was discovered that they had money deposited instead into a checking account with a balance of \$1,400. The excess four hundred dollars was not substantiated by any documentation.

Since the Friend of the Court is not using this money as a petty cash fund, we recommend this bank account be closed immediately and the entire balance of this account be returned to the treasurer's office for deposit in the general fund.

#### Appropriations in Budgetary Funds

P.A. 2 of 1968, as amended, provides that a governmental unit shall not incur expenditures in excess of amounts appropriated. We noted during our audit that the County incurred expenditures in excess of amounts appropriated in various funds and line items.

We recommend that the budget be amended during the year to account for expenditures in excess of the original budget amounts. These amendments must be approved by the County Commissioners and documented in the Commission minutes. This will help the County from incurring expenditures in excess of appropriations.

#### Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the December 31, 2006, financial statements, and this report does not affect our report on those financial statements dated June 8, 2007. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Board of County Commissioners, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

*Burnside & Lang, P.C.*

**BURNSIDE & LANG, P.C.**